

NEXSEN PRUET

**J. David Black**  
Member  
Admitted in SC, DC

November 20, 2018

**VIA ELECTRONIC MAIL and HAND-DELIVERY**

Jocelyn G. Boyd, Esquire  
Chief Clerk and Administrator  
The Public Service Commission  
101 Executive Center Drive, Suite 100  
Columbia, South Carolina 29210

**RE: Docket No. 2017-370-E**

Dear Ms. Boyd:

Enclosed for filing with the Public Service Commission is the **Second Supplemental Rebuttal Testimony of Prabir Purohit** on behalf of Dominion Energy, Inc. There is also a **CONFIDENTIAL** exhibit to Prabir Purohit's Second Supplemental Testimony that is being hand-delivered to the Commission.

Thank you for your assistance in this matter.

With kind regards, I remain

Very truly yours,



J. David Black

JDB/hjr

Attachments

cc: All Counsel of Record via Electronic Mail

Charleston

Charlotte

**Columbia**

Greensboro

Greenville

Hilton Head

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1                   **SECOND SUPPLEMENTAL REBUTTAL TESTIMONY OF**

2                   **PRABIR PUROHIT**

3                   **ON BEHALF OF**

4                   **DOMINION ENERGY, INC.**

5                   **DOCKET NO. 2017-370-E**

6   **Q.   PLEASE STATE YOUR FULL NAME, BUSINESS ADDRESS, AND**  
7   **OCCUPATION.**

8   A.           My name is Prabir Purohit and my business address is 120 Tredegar Street,  
9               Richmond, Virginia 23219. I am the Director of Mergers and Acquisitions and  
10              Financial Analysis at Dominion Energy, Inc. (“Dominion Energy”).

11 **Q.   HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?**

12 A.           Yes, I filed rebuttal testimony on behalf of Dominion Energy in Docket No.  
13               2017-370-E on October 24, 2018. I also filed supplemental rebuttal testimony on  
14               behalf of Dominion Energy in Docket No. 2017-370-E on October 25, 2018.

15 **Q.   WHAT IS THE PURPOSE OF YOUR SECOND SUPPLEMENTAL**  
16 **REBUTTAL TESTIMONY?**

17 A.           The purpose of my second supplemental rebuttal testimony is to present and  
18               discuss an Alternative Levelized Customer Benefits Plan (the “Levelized Plan” or  
19               “Plan B-L”) associated with the proposed merger developed by Dominion Energy  
20               and South Carolina Electric & Gas Company’s (“SCE&G”) parent, SCANA  
21               Corporation (“SCANA”), that the Joint Applicants would accept as an outcome in  
22               this proceeding in response to (1) calls by stakeholders to consider a retail electric

1 rate close to the experimental rate authorized by Act 258 / H. 4375 as a potential  
 2 remedy in this case, and (2) suggestions by Office of Regulatory Staff ("ORS")  
 3 witness Lane Kallen that the Commission adopt an approach where the recovery of  
 4 the allowed New Nuclear Development ("NND") abandonment cost is levelized  
 5 over the entire twenty year recovery period. I also, in response to a request from the  
 6 ORS, present a consolidated list of merger-related conditions proposed by the Joint  
 7 Applicants. The specific terms of the Levelized Plan are attached as Exhibit \_\_\_\_  
 8 (PP-1A).

### **THE LEVELIZED PLAN**

9 **Q. WOULD YOU PLEASE DISCUSS THE LEVELIZED PLAN AND EXPLAIN**  
 10 **WHY YOU ARE PRESENTING IT?**

A. Yes. On September 24, 2018, the ORS filed its testimony in this docket and recommended a plan that provides no upfront cash refund to customers, but instead provides lower bills going forward. Since that time, a number of parties to the case have expressed an interest in seeing an alternative plan from the Joint Applicants that does something similar to the ORS plan; that is, lower bills over time in lieu of upfront cash refunds. As a result, we developed the Alternative Customer Benefits Plan (the "Alternative Plan" or "Plan B"), which I described in my supplemental rebuttal testimony on behalf of Dominion Energy in Docket No. 2017-370-E on October 25, 2018. That produced a typical residential bill estimated to be approximately \$126.96 per month, or approximately \$1.62 above the temporary Act 258 / H. 4375 experimental bill level of approximately \$125.34 per month. Since then, we have further revised the Alternative Plan to address the suggestions from

stakeholders and policy makers involved with this proceeding concerning the wisdom of the General Assembly's experimental rate as a benchmark in this case, as well as the recommendation from ORS witness Lane Kollen that the recovery of allowed NND costs be levelized over the twenty-year recovery period in order to minimize recovery in the initial years and to fix recovery at the same level each year. In order to accommodate both of these objectives, we have developed the Levelized Plan, or Plan B-L. While it is a further concession, this Levelized Plan has also been developed in a way that preserves the merger economics of the Customer Benefits Plan so it is possible for Dominion Energy to close the merger.

1 **Q. FOR COMPARISON PURPOSES, WHAT ARE THE KEY FEATURES OF**  
 2 **THE ALTERNATIVE CUSTOMER BENEFITS PLAN THE JOINT**  
 3 **APPLICANTS FILED ON OCTOBER 25, 2018?**

4 A. The Alternative Customer Benefits Plan would provide a total of \$1.91  
 5 billion in refunds over a twenty-year NND recovery period, would recover \$2.772  
 6 billion (less adjustment for deferred taxes) of NND capital costs at a 9.9% ROE and  
 7 a 5.56% cost of debt, and would have a targeted capital structure comprised of  
 8 52.81% equity and 47.19% debt. As discussed below in my testimony, however, the  
 9 Joint Applicants agree to lower the \$2.772 billion to approximately \$2.768 billion  
 10 to reflect the agreed upon excluded amounts as set out in the consolidated merger  
 11 conditions attached as Exhibit No. \_\_\_\_ (PP-4A).

12 **Q. AND HOW DOES THE LEVELIZED PLAN DIFFER?**

13 A. The Levelized Plan would provide a total of \$2.039 billion in refunds over a  
 14 twenty-year NND recovery period. The annual refunds in the Levelized Plan are

shaped in such a manner that a fixed and equivalent amount of NND revenue is collected from customers each year for twenty years. As noted, the Levelized Plan would recover \$2.768 billion (less adjustment for deferred taxes and reflecting the excluded amounts as set out in the consolidated merger conditions) of NND capital costs over twenty years. All other rate making constructs of the Levelized Plan are the same as those proposed in the Alternative Customer Benefits Plan: NND capital costs are to be recovered at a 9.9% ROE and a 5.56% cost of debt, and would have a capital structure comprised of 52.81% equity and 47.19% debt.

**Q PLEASE ELABORATE ON THE \$2.039 BILLION IN REFUNDS THAT YOU REFERENCED.**

A. Approximately \$1.032 billion of this amount will be refunded to customers over the twenty-year NND cost recovery period as shown in Exhibit No. \_\_ (PP-2A), with a greater amount refunded in the earlier years and a smaller amount refunded in the later years to achieve the goal of levelized bills. As in Plan B, this amount is equal to the retail portion of the net proceeds of SCANA's settlement with Toshiba Corp. Payment of these funds to customers will decrease the regulatory liability recorded by SCE&G associated with the Toshiba settlement over twenty years on a set schedule as seen in Exhibit No. \_\_ (PP-2A).

Approximately \$1.007 billion of this amount will provide a refund of certain amounts previously collected under the South Carolina Baseload Review Act. SCE&G will establish a \$1.007 billion regulatory liability for refunds of amounts previously collected from customers, which will be credited to customers over approximately eleven years. Similar to Plan B, the additional \$1.007 billion

1 refunded compensates customers for the time value of money associated with  
2 paying the amounts equivalent to Toshiba over the twenty-year period. In  
3 consideration of these benefits, no rate base reduction or offset shall be recognized  
4 for the unamortized balance of the \$2.039 billion in refunds described above.

5 **Q. WHAT IS THE IMPACT OF THESE CHANGES ON CUSTOMER BILLS**  
6 **UNDER PLAN B-L?**

7 A. These changes produce a significant bill reduction of approximately 15%  
8 relative to May 2017 bill levels. The present typical residential bill under Act 258 /  
9 H. 4375 is approximately \$125.34 per month. Plan B-L would reduce that slightly  
10 to approximately \$125.26 per month for the typical residential bill, inclusive of  
11 NND amortization and the impacts of the Tax Cut and Jobs Act of 2017 ("TCJA").  
12 A roughly similar percentage bill reduction would result for the commercial and  
13 industrial rate customers and, of course, any individual customer may see higher or  
14 lower percentage and dollar savings depending on the rate schedule and unique  
15 usage profile of the customer.

16 **Q. MR. KOLLEN WAS CRITICAL OF PLAN B BECAUSE HE BELIEVED IT**  
17 **TO HAVE AN INFERIOR NET PRESENT VALUE ("NPV") TO**  
18 **CUSTOMERS AS COMPARED TO DOMINION ENERGY'S ORIGINAL**  
19 **CUSTOMER BENEFITS PLAN ("PLAN A"). HOW DOES THE**  
20 **LEVELIZED PLAN COMPARE TO PLAN A ON AN NPV BASIS?**

21 A. Compared to the original Customer Benefits Plan, the Levelized Plan reduces  
22 the net present value customers would pay over twenty years by about \$50 million  
23 (from about \$1.010 billion in Plan A to about \$962 million in the Levelized Plan),

1 resulting in a better NPV for customers than either Plan A or Plan B. While the  
2 Company does not agree that NPV comparisons are the sole factor for the  
3 Commission to consider in evaluating potential solutions to the NND dilemma,  
4 given Mr. Kollen's criticism, we are presenting this updated NPV analysis. Detailed  
5 work papers of the original Customer Benefits Plan, the Alternative Plan, and the  
6 Levelized Plan are attached in Confidential Exhibit No. \_\_ (PP-3A).

7 **Q. ARE CUSTOMERS PAYING MORE UNDER PLAN B-L THAN UNDER**  
8 **PLANB?**

9 A. No. They are actually paying approximately \$130 million less under Plan B-  
10 L than under Plan B, in nominal dollars. The timing of the recovery under Plan B-  
11 L allows a lower recovery amount in the early years of the amortization period,  
12 which also improves the NPV for the customer.

13 **Q. HOW DID YOU DETERMINE WHAT CHANGES TO MAKE TO THE**  
14 **ALTERNATIVE CUSTOMER BENEFITS PLAN TO DEVELOP THE**  
15 **LEVELIZED PLAN?**

16 A. In developing the Levelized Plan, our focus was on changes we could make  
17 to meet the objective of a level bill each year, while preserving the merger  
18 economics of the original Customer Benefits Plan. As we have always said, we  
19 believe we can provide benefits to customers through the merger that will not  
20 otherwise be available absent the merger. And we have also said that, while we  
21 would still support the Customer Benefits Plan with the upfront cash refund, we  
22 remain open to moving elements of the plan around to optimize the plan for  
23 customers and to be responsive to the preferences of stakeholders and the

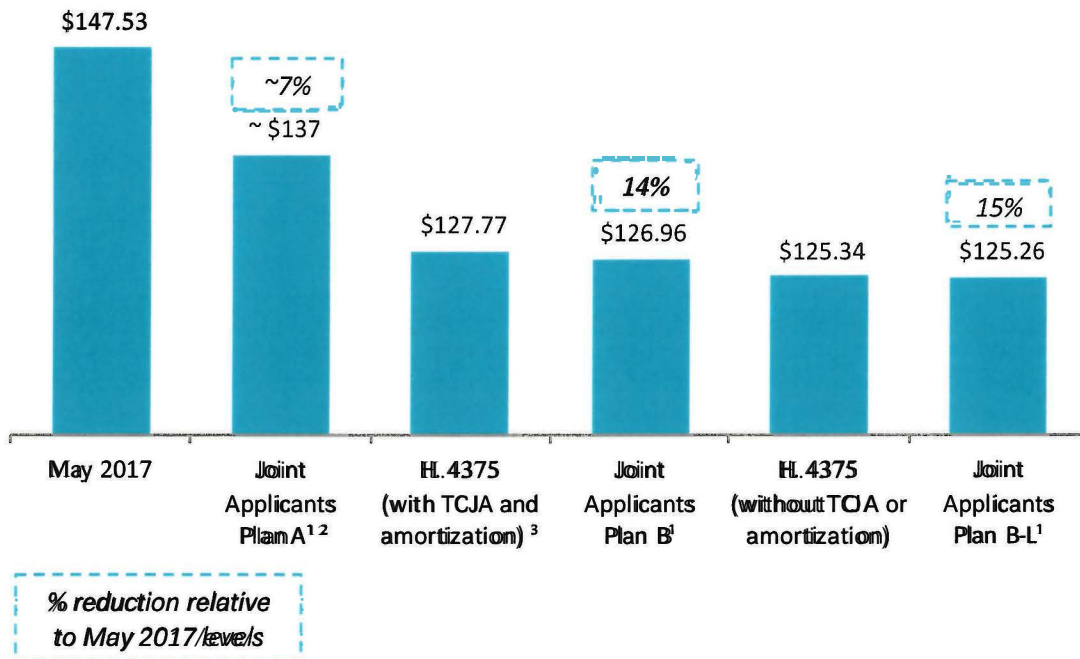
1 Commission in this case, and will “own” whichever proposed benefits plan, if any,  
2 the commission approves. But in so doing, we also have a fiduciary responsibility  
3 to our shareholders to maintain the economics of the merger. And that is what we  
4 have sought to accomplish in making adjustments to the original Customer Benefits  
5 Plan and the Alternative Plan to develop the Levelized Plan.

6 **Q. MR. PUROHIT, HAVE YOU COMPARED THE ESTIMATED TYPICAL**  
7 **RESIDENTIAL ELECTRIC BILL OF \$125.26 UNDER THE LEVELIZED**  
8 **PLAN TO BENCHMARK BILL LEVELS AND PEER UTILITY BILL**  
9 **LEVELS?**

10 **A.** Yes, Table 1, below, shows the comparable typical residential bills for  
11 SCE&G as of May 2017, under Customer Benefits Plans A, B, and B-L, and bills  
12 under Act 258 / H. 4375 as it exists today and as calculated by SCE&G witness  
13 Rooks, inclusive of TCJA impacts and NND amortization amounts. Table 1  
14 illustrates how the typical residential bill under Customer Benefits Plan B-L would  
15 be 15% below the May 2017 rate level and slightly below the Act 258 / H. 4375  
16 level.



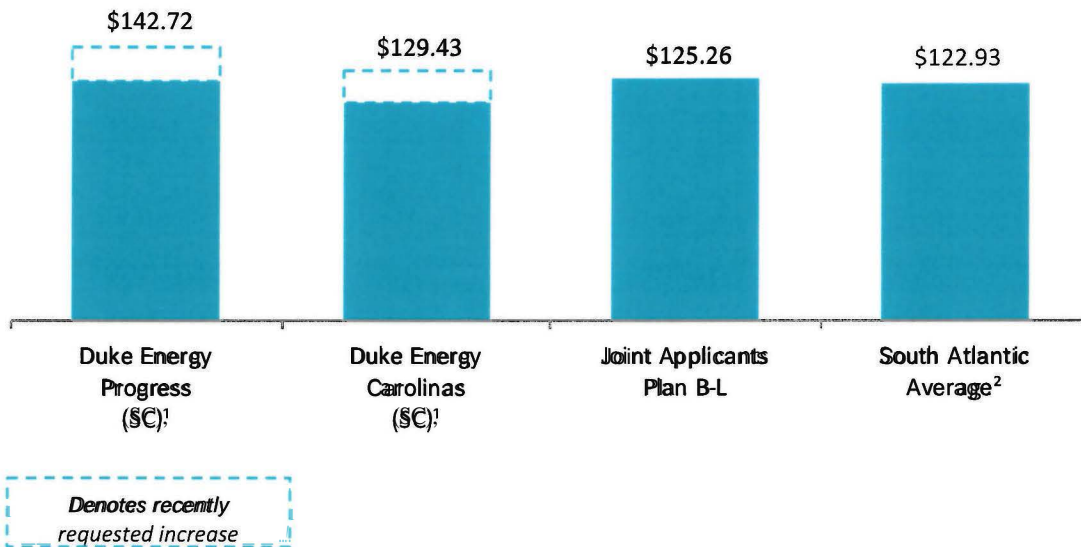
**Table 1: Comparison of Estimated Typical Residential Electric Bill by Joint Applicant Merger Plan and to Experimental Rates**



<sup>1</sup> Inclusive of estimated tax reform impacts and relative to May 2017 bill <sup>2</sup> Average Year 1 and Year 2 impact <sup>3</sup> Includes impact of \$2.772B capital costs amortized over 20 years and ORS Optimal Plan assumption of \$98.7M TCJA benefit

In addition, Table 2, below, compares the typical residential bill levels under Plan B-L to the South Atlantic region utility average and to the rates (current and proposed) of SCE&G's peer South Carolina utilities. Table 2 illustrates how the Plan B-L typical residential bill will be below SC peers and only slightly above the South Atlantic average. We also estimate commercial rates under the Customer Benefits Plan B-L would be about 2-5% above the South Atlantic average and about 15% below the South Atlantic average for industrial rates.

**Table 2: Comparison of Joint Applicants Plan B-L to Peer Averages of Typical Residential Bills (1,000 kWh)**



<sup>1</sup> Source: Duke Energy fact sheet <sup>2</sup> EEI Typical Bills and Average Rates Report - Winter 2018

**Q. DO THE TERMS OF PLAN A, PLAN B, OR PLAN B-L CONSTITUTE THE ECONOMIC LIMIT OF BENEFITS WHICH THE JOINT APPLICANTS CAN ACCEPT IN ORDER TO PRESERVE THE MERGER ECONOMICS?**

**A.** Yes, they do. Any of these three plans will provide approximately \$4 billion or more in direct customer benefits and concessions— an unprecedented proposal in a proceeding such as this one. The alternative “ORS Optimal Plan,” by contrast, remains an unacceptable outcome that would prevent the merger from closing.

**Q. IN PARTICULAR, ARE THE TERMS OF THESE CUSTOMER BENEFITS PLANS ON THE ISSUES OF THE TCJA SAVINGS AND MERGER-RELATED SAVINGS NECESSARY IN ORDER FOR THE MERGER**

1           **ECONOMICS TO BE PRESERVED?**

2       A.           Yes, they are, in the context of the overall benefits packages. As the evidence  
3       has demonstrated, our proposal on TCJA savings fairly and equitably ensures that  
4       customers will get the benefit of federal tax reform going forward. The ORS  
5       proposal promises marginally lower rates in the short term due in part to a more  
6       accelerated unprotected excess deferred tax amortization period, but under their plan  
7       the revenue requirement would increase in approximately five years due to  
8       expiration of unprotected excess deferred tax amortization. The Joint Applicants'  
9       plans appropriately match the tax benefits to the life of the underlying assets and  
10      prevent tomorrow's customers from paying for today's customers' benefits, as  
11      Dominion Energy witness Warren has discussed. In any event, the ORS tax proposal  
12      would upset the economic balance of the Customer Benefit Plans necessary to close  
13      the merger.

14               Likewise, Dominion Energy has fairly and reasonably proposed to capture  
15      merger-related savings for the benefit of customers in the process of the next general  
16      rate case in 2020. Our updated merger conditions mandate the timing of this rate  
17      case to ensure that these benefits are passed on to customers in a timely fashion.  
18      Dominion Energy's objections to the ORS proposal to immediately build into rates  
19      a drastic 33% reduction to service company expense levels have been thoroughly  
20      discussed in this proceeding. And, like the ORS TCJA proposal, such an amendment  
21      to the Customer Benefit Plans package terms would upset their necessary economic  
22      balance and would prevent us from being able to close the merger.

23               Of course, these statements are not ultimatums to the Commission, the ORS,

1 or any other party. We merely need to be clear as to the balance required on these  
 2 issues from Dominion Energy's perspective, and of course respect the  
 3 Commission's authority to consider, evaluate, and decide upon them.

4 **Q. PLEASE SUMMARIZE YOUR TESTIMONY ON THE LEVELIZED PLAN.**

5 A. While the Joint Applicants continue to support the original Customer  
 6 Benefits Plan, including upfront cash refunds of \$1.3 billion, we have developed a  
 7 Levelized Plan that more than doubles the percentage bill reduction to a level which  
 8 we believe will provide SCE&G customers with competitive rates, while preserving  
 9 a healthy utility able to continue to serve the needs of customers, the communities  
 10 and the State of South Carolina. If the Commission opts for lower bills in lieu of  
 11 upfront cash refunds, we believe either the Alternative Customer Benefits Plan or  
 12 Levelized Plan strikes the appropriate balance between reasonably minimizing bills  
 13 for customers, retaining the merger economics for Dominion Energy shareholders,  
 14 and preserving the financial health of the utility, and both would be acceptable  
 15 outcomes to the Joint Applicants if the merger is approved and that the Joint  
 16 Applicants would support. The Plan B-L, in particular, is being offered in response  
 17 to suggestions from key stakeholders that the temporary rate in Act 258 / H. 4375 is  
 18 an optimal target, and one which has, to date, withstood legal challenge.

19 **MERGER COMMITMENTS**

20 **Q. DURING THE COURSE OF THESE PROCEEDINGS, THE ORS HAS**  
 21 **REQUESTED IF DOMINION ENERGY WAS WILLING TO PRESENT**  
 22 **THE MERGER CONDITIONS THAT THE JOINT APPLICANTS WOULD**  
 23 **ACCEPT IN A CONSOLIDATED FORMAT. IS DOMINION ENERGY**

**WILLING TO DO SO?**

A. Yes. Attached as Exhibit No. 50 (PP-4A) is such a consolidated list. This list includes the proposed merger conditions as presented in the Joint Application. It also includes additional merger commitments that the Joint Applicants are willing to accept based on discussions with the parties and Commissioners' comments during the course of the evidentiary hearing.

**Q. COULD YOU BRIEFLY DETAIL THE RECENT ADDITIONAL MERGER COMMITMENTS YOU DESCRIBE?**

A. Yes, they include agreement to:

- Department of Defense and Federal Agencies bill credits
- Extending non-executive employee pay protection to July 1, 2020
- Consumer education program on benefits plan implementation
- Bill credits to SCE&G natural gas customers for refunds of 2017 revenues
- Open and transparent communication with the Commission and ORS
- Funds in the "Rabbi Trust" for senior management payments will not be included in any future cost of service
- Senior management bonus payments charged to the NND Project will be excluded from NND rate base and not included in a future cost of service
- Cost of Bechtel report will not be included in rate base / cost of service
- Timmerman consulting payments will be excluded from rate base / cost of service
- Civil litigation defense expenses associated with the merger and NND

1           abandonment will not be included in rate base / cost of service

- 2           • The President of SCE&G will continue to be a South Carolina resident with  
3           his/her primary office in Cayce

4   **Q. DOES THIS CONCLUDE YOUR SECOND SUPPLEMENTAL REBUTTAL**  
5   **TESTIMONY?**

6   **A. Yes, it does.**

**ALTERNATIVE LEVELIZED CUSTOMER BENEFITS PLAN TERMS****NND Cost Recovery Provisions**

1. Without conceding that any investments in SCE&G's New Nuclear Development ("NND") Project were imprudent, SCE&G agrees to limit its request for a prudence determination in the Merger Docket to NND investments made on or before March 12, 2015.

The Alternative Levelized Customer Benefits Plan ("Plan B-L") is contingent upon a determination by the Commission that abandonment of the NND Project as of this date was prudent, as provided under the South Carolina Baseload Review Act ("BLRA"), and such a determination is required to close the merger.

2. Consistent with (1) above, future capital cost recovery associated with the NND Project shall be limited to a rate base of \$2.772 billion, which reflects the level of invested capital as of March 12, 2015 (exclusive of transmission investments), less the agreed upon excluded amounts as set out in the merger conditions which lower the \$2.772 billion to approximately \$2.768 billion. The balance of NND investments, totaling approximately \$2 billion prior to impairments taken by SCE&G in 2017, along with the \$361 million in regulatory assets described in paragraph 57 c of the Joint Application and subsequently updated in the Direct Testimony of Kevin Kochems, shall not be recovered from customers. In addition, the regulatory asset representing excess deferred income taxes associated with the Toshiba regulatory liability balance will not be collected from customers.

3. SCE&G (or its successor corporate entity) shall be permitted to recover the \$2.768 billion in approved NND costs over a twenty-year amortization period commencing on January 1, 2019, including a return on investment based on a 9.9% return on equity, 5.56% cost of debt and capital structure consisting of 52.81% equity and 47.19% debt. The return

component shall be fixed for the duration of the cost recovery amortization period, consistent with the provisions of the BLRA. The NND rate base shall be offset by the deferred tax liability, net of the NOL deferred tax asset. The deferred tax asset shall be adjusted based on Dominion Energy's ability to utilize the NOL.

4. Any deferred tax liability ("DTL") measured against the book basis of the NND Project - approximately \$1.06 billion inclusive of the tax reform benefits - shall reduce the cost to customers of SCE&G's recovery of the NND Project. The entire balance of SCE&G's net operating loss carryforward ("NOLC") related deferred tax asset ("DTA") - approximately \$0.6 billion inclusive of the tax reform benefits - will be reflected as a rate base offset, dollar for dollar, to the DTL. Reductions in the NOLC-related DTA, and the associated excess deferred income taxes resulting from the Tax Cuts and Jobs Act of 2017 ("TCJA"), will be subject to Dominion Energy's ability to use the NOLC to reduce its consolidated income tax liability in accordance with Internal Revenue Code Sections 172 and 382 and shall be computed on a consolidated and not a separate company basis.

5. Approximately \$322 million in used and useful transmission infrastructure investments as of December 31, 2017 previously deferred for recovery through the Capital Cost Rider shall be excluded from NND cost recovery but may be deferred for recovery through SCE&G's base rates. The \$32 million of transmission-related revenue requirements currently in SCE&G's base rates shall remain in rates.

6. Other than customer refunds of past revenues collected as set out below, no adjustment for previously collected NND Project financing costs will be made, including any adjustment related to the rates implemented pursuant to Act 258/H. 4375 which shall terminate upon the Commission's Final Order in the merger and related dockets. Upon final approval of



the merger docket proceedings and closing of the merger, SCE&G shall withdraw any legal challenge to Act 258/H. 4375.

Customer Benefits Funded by Dominion Energy

7. Dominion Energy agrees to fund approximately \$2.039 billion in customer refunds and restitution by SCE&G as follows:

- A. \$1.032 billion will be refunded to SCE&G customers over the twenty-year NND cost recovery period per a fixed schedule as presented in Exhibit PP-2A. This amount is equal to the net proceeds of SCANA's settlement with Toshiba Corp. Payment of these funds to customers will decrease the regulatory liability recorded by SCE&G associated with the Toshiba settlement over 20 years as shown in Exhibit PP-2A.
- B. \$1.007 billion will provide a refund and restitution of amounts previously collected by SCE&G under the BLRA, and shall be so characterized in the Commission Order approving Plan B-L. This will establish a \$1.007 billion regulatory liability for refunds of amounts previously collected from customers to be credited over approximately eleven years.
- C. In consideration of the benefits in 7.A. and 7.B., no rate base reduction or offset shall be recognized for the unamortized balance of refunds described in 7.A. and 7.B.

8. The customer benefit amounts described in 7 above shall be refunded to customers by way of a Capital Cost Rider over the applicable amortization period specified in 7.A. and 7.B. respectively.

9. The benefits will be allocated to the customer classes on the same basis as used to design the Capital Cost Rider cost recovery.

10. The acquisition costs of the Columbia Energy Center totaling approximately \$180 million, though used and useful for the benefit of customers, will be voluntarily and permanently excluded from SCE&G's rate base. Ongoing O&M expense, fuel, and any maintenance capital associated with the facility shall be eligible for recovery through rates.

### TCJA Benefits

11. The benefits of reduction in federal corporate income tax rates to SCE&G's base rates shall be flowed through to SCE&G's retail electric customers in rates effective January 1, 2019. This will result in an approximately 2.7% reduction in total rates relative to May 2017 levels. The 2.7% consists of an approximately \$44 million reduction in the recovery of income taxes and an approximately \$23 million benefit for the amortization of excess deferred income taxes in accordance with the requirements of the normalization rules. The tax reform benefits shall apply to both base rates and the NND Rider, with the latter being incorporated into the NND Rider as described in paragraph 57 i of the Joint Application. A refund of tax savings for the period January 1, 2018 to December 31, 2018 shall be flowed back to customers through a one-time bill credit. Inclusive of TCJA benefits reflected in the Capital Cost Rider, the total year 1 implied TCJA benefit in typical residential bills would be approximately 3.7% relative to May 2017 levels.

### Total Bill Reductions

12. In total, the \$2.768 billion rate base net of the deferred liability and the deferred tax asset (as described in 4), the \$2.039 billion of customer refunds, and the impact of TCJA benefits all result in an approximately 15% bill reduction to a typical residential electric customer's bill, relative to May 2017 levels. Percent reductions are indicative and will vary for any individual customer based on their usage and rate schedule. Dominion Energy estimates that the typical residential bill as of January 1, 2019, inclusive of the impacts of TCJA, will be approximately \$125.26, which is lower than the temporary Act 258/H. 4375 experimental bill level of approximately \$125.34.

Rate Comeback / Stay Out

13. In order to ensure actual merger related savings are reflected in rates on a timely basis, SCE&G shall file a general rate case on May 1, 2020 based on a test year ended December 31, 2019, updated for known and measureable changes as of September 30, 2020, with rates effective January 1, 2021. Conversely, SCE&G shall not file a general rate case before May 1, 2020.

Merger Commitments

14. The merger commitments included as Exhibit (PP-4A) are incorporated herein by reference.

NND Cost Securitization

15. Plan B-L is contingent upon the absence of any merger condition being imposed by the Commission requiring or directing the securitization of all or a portion of costs associated with the NND Project, now or in the future.

Dismissal of 2017-305-E Docket

16. Plan B-L is contingent upon dismissal by the Commission of the 2017-305-E rate docket as moot.

**Exhibit PP-2A****Schedule of \$1.032B of Bill Reduction Refunds to Decrease  
Regulatory Liability Associated with Toshiba Settlement**

<u>Year</u>	<u>Bill Reduction Refunds - \$M</u>
2019	\$67
2020	\$67
2021	\$67
2022	\$67
2023	\$67
2024	\$67
2025	\$67
2026	\$67
2027	\$67
2028	\$67
2029	\$67
2030	\$64
2031	\$57
2032	\$49
2033	\$41
2034	\$33
2035	\$25
2036	\$17
2037	\$9
2038	\$1
Total	<hr/> \$1,032

**CONFIDENTIAL EXHIBIT PP-3A**  
**FILED SEPARATELY**

**Joint Applicants' Proposed Merger Conditions****I. Future Base Rate Cases**

1. Except for rate adjustments for fuel and environmental costs, demand side management costs and other rates routinely adjusted on an annual or biannual basis, SCE&G will commit to freezing retail electric base rates at current levels until January 1, 2021.
2. The following costs shall prospectively be excluded from SCE&G's New Nuclear Development ("NND") Project rate base and SCE&G's cost of service for ratemaking purposes:
  - a. Funds in the "Rabbi Trust" for senior management payments;
  - b. Senior management bonus payments charged to the NND Project;
  - c. Cost of Bechtel report;
  - d. Consulting payments made to former SCANA Chief Executive Officer, William Timmerman; and
  - e. Civil litigation defense expenses associated with the merger and NND Project abandonment.

**II. Merger Acquisition Premium, Goodwill, Transaction, and Transition Costs**

1. SCE&G will not seek recovery of any acquisition premium (goodwill) costs, transition costs, or transaction costs associated with the combination from its customers in accordance with the following:
  - a. The following definition of acquisition premium (goodwill) costs shall apply. As defined in Accounting Standards Codification Topic 805, Business Combinations, goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The terms goodwill and acquisition premium are used interchangeably for ratemaking purposes. Goodwill will not be determined until the closing date of the transaction, at which time it will be based on the fair value of SCANA's identifiable assets and liabilities.
  - b. Dominion Energy will not record any portion of the purchase price allocation adjustments (fair value adjustments, including goodwill) associated with the merger on SCANA or SCE&G's books and is planning to make the required accounting entries associated with the merger on that basis.
  - c. Neither SCANA nor SCE&G will seek recovery of any acquisition premium (goodwill) or any other fair value adjustments associated with the merger from its customers.
  - d. The following definition of transaction costs shall apply. Transaction costs include costs incurred in connection with completion of the acquisition by Dominion Energy, Inc. of the equity interests of SCANA Corporation, including costs of obtaining all necessary regulatory approvals for the merger. Examples of such costs include legal fees and expenses, regulatory filing fees, and costs of

developing and pursuing regulatory approvals, accounting fees, costs related to securities issuances and proxy solicitations, financial advisory fees, and investment banking fees.

- e. Any transaction costs related to the merger will be incurred and expensed at the respective Dominion Energy, Inc. and SCANA Corporation corporate ("Holding Company") level. As such, SCE&G will not seek recovery of these costs from customers. Neither Dominion Energy, Inc. nor SCANA Corporation have specific FERC financial reporting requirements at the Holding Company level, although SCANA Corporation does maintain its Holding Company general ledger utilizing the FERC Uniform System of Accounts. As such, these transaction costs have been and are being recorded on SCANA's general ledger to account 426.5 – Other Deductions which is a below-the-line nonutility account number. Regardless of the account number used at either the Dominion Energy or SCANA Holding Company level, these costs are not passed down to any Dominion Energy or SCANA subsidiary company. Similarly, due to the nature of the costs incurred, some may originate at Dominion Energy Services, Inc. or SCANA Services, Inc. and will be charged to the respective Holding Company. Any transaction costs that are required to be recorded on the books of SCE&G under Generally Accepted Accounting Principles will be reflected on SCE&G's books below-the-line in FERC account 426.5 - Other Deductions to ensure the amounts are excluded from rate recovery.
- f. The following definition of transition costs shall apply. Transition costs are generally costs arising from the activities necessary to integrate the purchased entity into the acquiring entity. Examples of transition costs include those related to, but not limited to, the integration of financial, IT, human resource, billing, accounting, and telecommunications systems and processes. Other costs could include severance payments to employees and costs related to changes to signage, the cost of transitioning employees to post-merger employee benefit plans, and termination of any duplicative leases, contracts, operations, etc.
- g. Generally, transition costs related to the merger will be incurred and expensed at the respective Dominion Energy and SCANA Holding Company level and will not be pushed down or charged to SCE&G or any other SCANA or Dominion Energy subsidiary company. As such, SCE&G will not seek recovery of these costs from customers. Neither Dominion Energy, Inc. nor SCANA Corporation have specific FERC financial reporting requirements at the Holding Company level, although SCANA Corporation does maintain its Holding Company general ledger utilizing the FERC Uniform System of Accounts. Accordingly, these transition costs have been and are being recorded on SCANA's general ledger to account 426.5 - Other Deductions, which is a below-the-line nonutility account number. Similarly, due to the nature of the costs incurred, some may originate at Dominion Energy Services, Inc. or SCANA Services, Inc. and will be charged to the respective Holding Company. Any transition costs and one-time charges attributable to the Customer Benefits Plan that are required to be recorded on the books of SCE&G under Generally Accepted Accounting Principles will be

reflected on SCE&G's books below-the-line in FERC account 426.5 – Other Deductions to ensure the amounts are excluded from rate recovery.

### **III. Cost of New Generating Capacity**

1. The approximately \$180 million initial capital investment in the Columbia Energy Center, a 540-MW combined-cycle, natural gas-fired power plant located in Gaston, South Carolina, will be excluded from rate base and rate recovery, with only the ongoing costs such as fuel costs, operations and maintenance expense, and maintenance or improvement capital investments associated with the plant to be recovered in future base and fuel rates.

### **IV. Affiliate Transactions**

1. Dominion Energy does not permit any lending of cash or other capital from a utility subsidiary to any other entity within the Dominion Energy family (in other words, there is no “money pool” for these regulated utility subsidiaries).

2. SCE&G shall not be the guarantor of any debt of Dominion Energy, Inc. or any other Dominion Energy affiliates.

3. For affiliate transactions involving SCE&G, Dominion Energy, SCE&G, and its affiliates shall abide by the following standards regarding affiliate transactions as depicted in the NARUC's Guidelines for Cost Allocations and Affiliate Transactions unless as otherwise directed by the Commission. To the extent any provisions of Commission Order 92-931 in Docket No. 89-230-E/G are inconsistent with the following conditions, the following conditions shall control:

- a. Generally, the price for services, products and the use of assets provided by a regulated entity to its non-regulated affiliates should be at the higher of fully allocated costs or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.
- b. Generally, the price for services, products and the use of assets provided by a non-regulated affiliate to a regulated affiliate should be at the lower of fully allocated cost or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.
- c. Generally, transfer of a capital asset from the utility to its non-regulated affiliate should be at the greater of prevailing market price or net book value, except as otherwise required by law or regulation. Generally, transfer of assets from an affiliate to the utility should be at the lower of prevailing market price or net book value, except as otherwise required by law or regulation. To determine prevailing market value, an appraisal should be required at certain value thresholds as determined by regulators.



- d. Entities should maintain all information underlying affiliate transactions with the affiliated utility for a minimum of three years, or as required by law or regulation.

## V. Business

1. Dominion Energy intends to maintain SCE&G's headquarters in Cayce, South Carolina.
2. The President of SCE&G will continue to be a South Carolina resident with his/her primary office in Cayce, South Carolina. That position will report to the Chief Executive Officer of the Dominion Energy Southeast Energy Group, as will the President of PSNC Energy and other South Carolina leadership positions. The Chief Executive Officer of the Dominion Energy Southeast Energy Group will report directly to the Chief Executive Officer of Dominion Energy, and will maintain his/her primary office in South Carolina.
3. Dominion Energy intends that its board of directors will take all necessary action, as soon as practical after the effective time of the merger, to appoint a mutually agreeable current member of the SCANA Board or SCANA's executive management team as a director to serve on Dominion Energy's board of directors.
4. Dominion Energy will manage SCE&G from an operations standpoint as a separate regional business under Dominion Energy. SCE&G will retain local responsibility for making decisions that achieve the objectives of customer satisfaction, reliable service, customer, public, and employee safety, environmental stewardship, and collaborative and productive relationships with customers, regulators, other governmental entities, and interested stakeholders.
5. Dominion Energy shall not change the legal structure of SCE&G without prior authorization from the Commission. Dominion Energy commits that SCE&G will continue to exist as a separate legal entity following the merger, and that both electric and gas assets and local operations will remain resident within SCE&G, unless otherwise approved by the Commission.
6. The Commission will continue to exercise its regulatory authority over SCE&G in the same way it does today, thereby ensuring continued protection of the interests of South Carolina customers. In addition, officers and employees of Dominion Energy, including SCE&G local management, will continue to be accessible to regulators and lawmakers, including the Commission. As part of this and future regulatory proceedings, Dominion Energy and SCE&G will continue to provide information about Dominion Energy or its other subsidiaries relevant to matters within the Commission's jurisdiction to the Commission upon request of the Commission. In addition, Dominion Energy and SCE&G management will ensure local access to books and records of SCE&G, including local access to the books and records of SCANA Services, Inc., and Dominion Energy Services, Inc., as well as any other affiliate that provides services to and charges SCE&G, without limitation to specific future "proceedings."
7. SCE&G and Dominion Energy commit to communicate all material information within a reasonable period of time with the Office of Regulatory Staff ("ORS") and the Commission and to be transparent to the Commission, ORS, ratepayers, and the public in South Carolina; provided, however, that SCE&G and Dominion Energy are not required by this condition to

publicly disclose confidential and proprietary information, and may seek reasonable, appropriate protections from disclosure of confidential and proprietary information in the course of proceedings before the Commission. By accepting this condition, neither Dominion Energy nor SCE&G waive any right to assert the attorney client privilege or attorney work product doctrine.

## **VI. Employee Matters**

1. Dominion Energy commits to maintaining compensation levels for employees of SCANA and its subsidiaries, including SCE&G, following the closing of the Merger until at least January 1, 2020. However, for non-executive employees, Dominion Energy will extend the Merger Agreement's commitment to maintaining compensation levels for employees of SCANA and its subsidiaries, including SCE&G, following the closing of the Merger until at least July 1, 2020. Dominion Energy also will extend until July 1, 2020 the Merger Agreement's commitment to provide severance benefits or base pay continuation to non-executive employees who may be severed prior to that date.

2. Dominion Energy will give employees of SCANA and its subsidiaries, including SCE&G, due and fair consideration for other employment and promotion opportunities within the larger Dominion Energy organization, both inside and outside of South Carolina, to the extent any such employment positions are re-aligned, reduced, or eliminated in the future as a result of the merger.

3. Dominion Energy will seek to minimize the reductions in local employment, and in particular any involuntary reductions, by allowing some of the Dominion Energy Services, Inc. employees supporting shared and common services functions and activities to be located in Cayce where it makes economic and practical sense to do so. In any case, it will maintain employees in Cayce when it is in the best interests of SCE&G customers to do so.

## **VII. Service Quality**

1. Dominion Energy intends to maintain SCE&G's customer service at no less than current levels and will strive for continued improvements thereto.

2. Dominion Energy will not diminish SCE&G's focus on installing, upgrading, and maintaining facilities necessary for safe and reliable operations.

3. SCE&G current levels of customer service and performance are adequate. The following conditions below are to monitor service and performance following closing of the merger to ensure levels do not degrade for reasons attributable to the merger:

- a. For SCE&G's electric operations, SCE&G shall provide quarterly SAIDI and SAIFI reporting the same as provided by Dominion Energy shown on Exhibit RAB-12, page 1. The quarterly reporting to the Commission should begin no less than six (6) months after the close of the transaction.
- b. For SCE&G's electric operations, SCE&G shall provide quarterly Call Center Performance Metrics reporting the same as provided by Dominion Energy on Exhibit RAB-12, page 2. The quarterly reporting to the Commission should begin no less than six (6) months after the close of the transaction.

- c. For SCE&G's gas operations, SCE&G shall file quarterly service quality reports with the same service quality metrics shown as provided by Dominion Energy shown on Exhibit RAB-11. The quarterly reporting to the Commission should begin no less than six (6) months after the close of the transaction.
  - d. The service quality reports listed above shall be reviewed biennially in a Commission docket, with the first review taking place two years after merger close. Any degradation in service levels indicated shall be accompanied by a plan submitted by SCE&G to address the degradation.
4. Dominion Energy will maintain the environmental monitoring and maintenance programs of SCE&G at or above current levels.

### **VIII. Financial**

1. Dominion Energy, through SCANA, will provide equity, as needed, to SCE&G with the intent of maintaining SCE&G's capital structure targeted within a range of 50%-55% equity that is consistent with existing regulatory guidelines and improving credit ratings.
2. Dominion Energy intends to maintain credit metrics that are supportive of strong investment-grade credit ratings for SCE&G.
3. Except for the return on equity ("ROE") and cost of debt approved by the Commission for NND cost recovery for the twenty-year recovery period:
  - a. The ROE for SCE&G's base electric business should be determined based on past practice and precedent, to determine a fair and reasonable return on equity.
  - b. To the extent that any long-term debt which is issued by SCE&G following the date of closing of the merger is more expensive (as measured by spreads to then-current Treasuries) as a result of the merger than the average long-term debt of similar tenor and security package issued by "BBB/Baa" rated state-regulated utilities in a similar time period, the cost of debt of such issuances shall be reduced to that average for purposes of calculating overall cost of debt in the first base rate proceeding following closing of the merger.

### **IX. Community**

1. Dominion Energy commits to increasing SCANA's historical level of corporate contributions to charities identified by SCANA's leadership by \$1,000,000 per year for at least five years after the closing of the merger, and will maintain or increase historical levels of community involvement, low income funding, and economic development efforts in SCANA's current operation areas.

### **X. Merger Savings**

1. Upon the closing of the merger, SCE&G will create a regulatory liability of \$2.45 million representing a refund to natural gas customers of 2017 revenues and will subsequently provide

such refund to natural gas customers as a bill credit of \$820,000 on January 1, 2019 or as soon thereafter as practicable, another bill credit of \$815,000 on January 1, 2020, and a final bill credit of \$815,000 on January 1, 2021.

2. In order to ensure actual merger related savings are reflected in electric rates on a timely basis, SCE&G shall file an electric general rate case on May 1, 2020 based on a test year ended December 31, 2019, updated for known and measureable changes as of September 30, 2020 with rates effective January 1, 2021. Conversely, SCE&G shall not file an electric general rate case before May 1, 2020.

#### **XI. Transco Stipulation**

1. Following closing of the merger, SCE&G shall not contract with an interstate pipeline for natural gas transmission capacity of 100,000 dekatherms per day (dt/d) or more unless or until it has issued a request for proposals to obtain such capacity and considers the proposals in good faith. SCE&G shall file confidential reports on any such solicitation process with the Commission as well as any other state agency as may be required by law within thirty (30) days of the conclusion of such solicitation process. For the avoidance of doubt, SCE&G shall be considered to be contracting for 100,000 dt/d if such contracting takes the form of one or more separate contracts, even if such contracts contain different material terms, if such contracts arise out of the same interstate pipeline project or the same capacity posting.

2. Following closing of the merger, SCE&G shall not contract with an interstate pipeline for additional natural gas transmission capacity of 100,000 dt/d or more unless the interstate pipeline is the least cost provider of such capacity or unless the Commission has approved the contract for such additional capacity. For the avoidance of doubt, SCE&G shall be considered to be contracting for 100,000 dt/d if such contracting takes the form of one or more separate contracts, even if such contracts contain different material terms, if such contracts arise out of the same interstate pipeline project or the same capacity posting.

#### **XII. Department of Defense**

1. SCE&G agrees that, if a cash refund for rates is given, then the Department of Defense and all other Federal Executive Agencies will have an option to select whether they receive the refund of rates as a check or as a credit on their billing invoice.

#### **XIII. Customer Education Plan**

1. In consultation with ORS, Dominion Energy and SCE&G shall develop a program to educate SCE&G customers about the benefits and implementation of any Joint Applicants Merger Benefits Plan approved by the Commission ("Customer Education Program"). Any Customer Education Program shall be filed with the Commission prior to its implementation.